

Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 AID-05 CIAE-00 COME-00 FRB-03
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EO 11652: N/A
TAGS: EFIN, CI
SUBJECT: COLLAPSE OF TWO FINANCE COMPANIES INDUCES GOC TO TAKE
ACTION IN CAPITAL MARKET

1. WITHIN THE PAST TEN DAYS TWO SMALL FINANCE COMPANIES
("FINANCIERAS") HAVE BEEN INTERVENED BY THE GOVERNMENT IN
CIRCUMSTANCES INVOLVING UNSOUND FINANCIAL PRACTICES AND
POSSIBLE FRAUD. WHILE BOTH TOGETHER ARE INSIGNIFICANT IN THE
LOCAL FINANCIAL MARKET, THE CONFIDENCE OF MANY SMALL
INVESTORS HAS BEEN SHAKEN AND A RUN ON FINANCIALLY SOUND
INSTITUTIONS COULD BE PRECIPITATED. THE SUPERINTENDENT
OF BANKS ANNOUNCED ON DECEMBER 22 THAT LEGISLATION HAS
BEEN DRAFTED TO "CLEAN UP" THE CAPITAL MARKET BUT REFUSED
TO GIVE DETAILS.

2. COMMENT: PRESUMABLY, THE NEW LEGISLATION WILL MAKE LIFE
MORE DIFFICULT FOR THE MANY FLY-BY-NIGHT FINANCE COMPANIES
WHICH HAVE SPRUNG UP DURING THE PAST TWO YEARS. MANY OPERATE
AT THE MARGIN OF THE LAW, IF NOT BEYOND, BY ENTICING LENDERS
WITH VERY HIGH INTEREST RATES. THE QUALITY OF THEIR ASSETS
IS OFTEN DUBIOUS AT BEST. THE FAILURE OF SOME WAS EASILY
FORESEEABLE GIVEN A LIGHTLY AND RATHER LOOSELY REGULATED
FINANCIAL MARKET.

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3. ECONOMIC POLICY MAKERS ARE NOT DISPOSED TO CRACK DOWN
VERY HARD. CENTRAL BANK PRESIDENT PABLO BARAONO COMMENTED
THAT THE PUBLIC SHOULD LEARN TO EVALUATE THE SOLVENCY
OF EACH FIRM OPERATING IN THE CAPITAL MARKET (*)
NEVERTHELESS, PUBLIC INDIGNATION, PARTICULARLY IF STILL MORE

FIRMS SHOULD FAIL, COULD OBLIGE THE GOC TO TAKE MORE DRASTIC ACTION THAN THE ECONOMIC TEAM'S FREE MARKET PRINCIPLES WOULD SUGGEST AS OPTIMAL. THE STRONG ELEMENTS IN THE COMMUNITY FAVORING A MORE INTERVENTIONIST ECONOMY POLICY COULD EXPLOIT THE LOSSES INCURRED BY ILL-INFORMED SMALL INVESTORS TO PRESS FOR PROTECTIVE AND REMEDIAL ACTION.

4. IN DEPTH ANALYSIS TO FOLLOW IN AIRGRAM.
POPPER

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